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Report Highlights:
Production of major grains in Russia in 2006 was up very slightly compared to 2005 (78.4 mmt vs 78.2 mmt, clean weight basis) despite a contraction in area planted and harvested. The Ministry of Agriculture is placing greater emphasis on feed grain production in support of the national priority project for accelerated development of the livestock sector, resulting in expansion of area under corn for grain as well as feed barley and pulses. A ban on imports of U.S. rice in September 2006 followed by a ban on rice imports from all origins in December 2006 has supported prices paid to domestic rice producers and if not lifted soon could disrupt the internal rice market. Prices for grains are generally strong, supported by continued exports in the face of growing domestic demand for feed use and higher international grain prices due to expansion of alternative uses, including biofuels.

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Executive Summary

Production of major grains in Russia in 2006 was up very slightly compared to 2005 (78.4 mmt vs 78.2 mmt, clean weight basis) despite a contraction in area planted and harvested. The Ministry of Agriculture is placing greater emphasis on feed grain production in support of the national priority project for accelerated development of the livestock sector, resulting in expansion of area under corn for grain as well as feed barley and pulses. A ban on imports of U.S. rice in September 2006 followed by a ban on rice imports from all origins in December 2006 has supported prices paid to domestic rice producers and if not lifted soon could disrupt the internal rice market. Prices for grains are generally strong, supported by continued exports in the face of growing domestic demand for feed use and higher international grain prices due to expansion of alternative uses, including biofuels.

Production

The Russian Ministry of Agriculture reported that Russia produced 78.4 million metric tons (mmt) of grain in 2006. Wheat production in 2006 was estimated at 44.9 mmt, down 5.8 percent from the previous year. The five main wheat production regions were Stavropol kray (5.0 mmt), Krasnodar kray (4.6 mmt), Rostov oblast (4.2 mmt), Altay kray (2.4 mmt), and Volgograd oblast (2.3 mmt). Data on winter versus spring wheat production are not available, but analysts report that winter wheat production decreased in the Central and Southern Federal Districts, while spring wheat production increased in the Volga Valley and Ural Federal Districts. The decrease in wheat production is attributed to decreased sown area from 25.4 million hectares in 2005 to 23.6 million hectares in 2006, while yields were stable.

According to Rosstat data, barley production in 2006 reached 18.1 mmt, 14.6 percent up from last year. Production in the Southern Federal District increased by 20.5 percent from last year, and reached 4.3 mmt, and production in the Volga Valley Federal District increased by 19.2 percent to 5.6 mmt, 5.3 mmt of barley were produced in the Central Federal District, up 5 percent from last year. The increase in barley production was due to a 9.1 percent rise, to 10.0 million hectares, in area sown to barley, especially spring barley.

Corn production increased to 3.6 mmt, 13 percent up from 2005, with Krasnodar kray the leader, producing 1.4 mmt of corn. The production increase was due to a rise in area planted from 868,000 hectares to 1.1 million hectares, though average yields decreased.

Winter Grains

In Fall 2006 area sown to winter grains showed a year-on-year decline, to 14.2 million hectares, 0.2 million hectares smaller than in the previous year. Up to now, in spite of atypically warm December and January weather, local sources have not reported frost damage of winter grains, although potential cold snaps in February and March may still alter the situation. The main problems reported by local sources in January were fast-growing populations of field mice, favorable conditions for survival of pests, and possible decrease of plants' resistance to diseases.

Trade

According to preliminary data of the SovEcon market research service, in July-December, 2006, Russia exported almost 7.5 mmt of grain, including 6.7 mmt of wheat and 700,000 metric tons of barley. Main destinations of Russian wheat exports were India, Egypt, Bangladesh, Georgia, and Azerbaijan. Barley exports reached only 700,000 metric tons by the end of December 2006. The main importer of Russian barley, as before, was Saudi

Arabia. Experts do not forecast significant grain exports in the remaining months of MY 2006, since domestic prices for feed wheat and feed barley are attractive (Table 1). Through January 2007 the Russian Ministry of Agriculture's grain export forecast remained 10.0 mmt in MY 2006, but on February 1, 2007, Russian President Putin announced at a press conference Russia would export 14 mmt of grain in the period between July 2006 and July 2007. If that happens, imports of feed grains, including corn, may increase.

Wheat imports are forecast at 1.2 mmt, and barley imports will not exceed 220,000 metric tons, half the level of 3-5 years ago. Imports of malting barley have been replaced by domestic production due to investment by the malting and brewing industry in barley growing.

Rice Bans

Imports of rice (milled basis) in January – September 2006 decreased to 276,000 metric tons from 310,340 metric tons in the same period of 2005, as import tariffs on rice increased (GAIN reports RS5019 *New Import Duty on Rice*, and RS5083 *Rice and Products Import Duties*). According to preliminary customs data, Russia imported 28,600 metric tons in October, and 34,900 metric tons in November, thus the total rice imports in January – November 2006 were 339,500 metric tons, only 3,000 metric tons less than in the same period 2005. The domestic rice crop reached a 13-year record of 685,000 metric tons paddy basis, approximately 450,000 metric tons milled basis.

U.S. rice exports to Russia were banned September 27, 2006, due to reports of admixture of the unapproved LLRICE 601 biotechnology event. Although the admixture was reported only in certain types of rice, all types of U.S.-origin rice were banned. That ban is still in effect.

On December 4, 2006, Russia imposed a phytosanitary-based ban on imports of rice from all origins, and the ban has not been lifted yet (see GAIN RS6066 *Russian Temporarily Bans Rice Imports* and GAIN RS6069 *VPSS Eases Rice Import Ban for Shipments on the Water*). Experts say that importers managed to accumulate stocks of rice before the ban, and it will not significantly influence domestic supplies. However, the ban distorts international rice trade flows, and is further evidence of Russia's increasing misuse of phytosanitary and grain quality rules to manage grain trade volumes. Krasnodar Governor Aleksandr Tkachev went so far as to thank Russian phytosanitary authorities via the mass media for restricting trade, thereby supporting rice producers in his province (Krasnodar kray is the major production area for Russian rice).

The ban is particularly problematic for users of medium- and long-grain rice, since Russian rice is short-grained and thus unsuitable for many culinary applications. If prolonged, the ban could disrupt the internal rice market, leading to shortages of medium- and long-grain rice, and an overabundance of short-grain rice.

As of February 2007, China, India and Thailand had agreed to permit Russian phytosanitary specialists to inspect the rice production, processing and handling systems in their respective countries as part of an effort to restart trade in rice, but no anticipated timelines for resumption of trade have been made public.

Domestic Feed Consumption

The national priority project for agriculture (GAIN RS5086 *Agriculture as a "National Priority Project"*) has stimulated Russian farmers to invest in poultry and livestock operations, particularly swine. Increasingly, farmers understand that investments will pay off if feed conversion ratios and the structure of rations are improved. Demand for feed has thus

increased, and domestic prices of feed grains remain high. However, relatively high levels of exports have been sustained due to both the business interests of multinational grain trading companies and their contractual obligations, even when domestic prices may be slightly more attractive than those on international markets.

Recently the mass media have reiterated concerns about significant exports of grain increasing costs to domestic livestock producers, when "patriotism" should dictate selling grain cheaper to the domestic feeding industry. Furthermore, while comprehension of the need to import protein-rich and higher energy feed, including soybean meal and corn, is widespread among livestock and poultry farmers, it is not discussed in the media on the grounds it is "unpatriotic". These political considerations will hardly influence distribution of grain between exports and domestic feed use, and will not result in government intervention to curbi grain exports in MY 2006, but in the 2007 to 2008 election campaign season the situation may change, and increased government control of grain trade is distinctly possible.

Prices

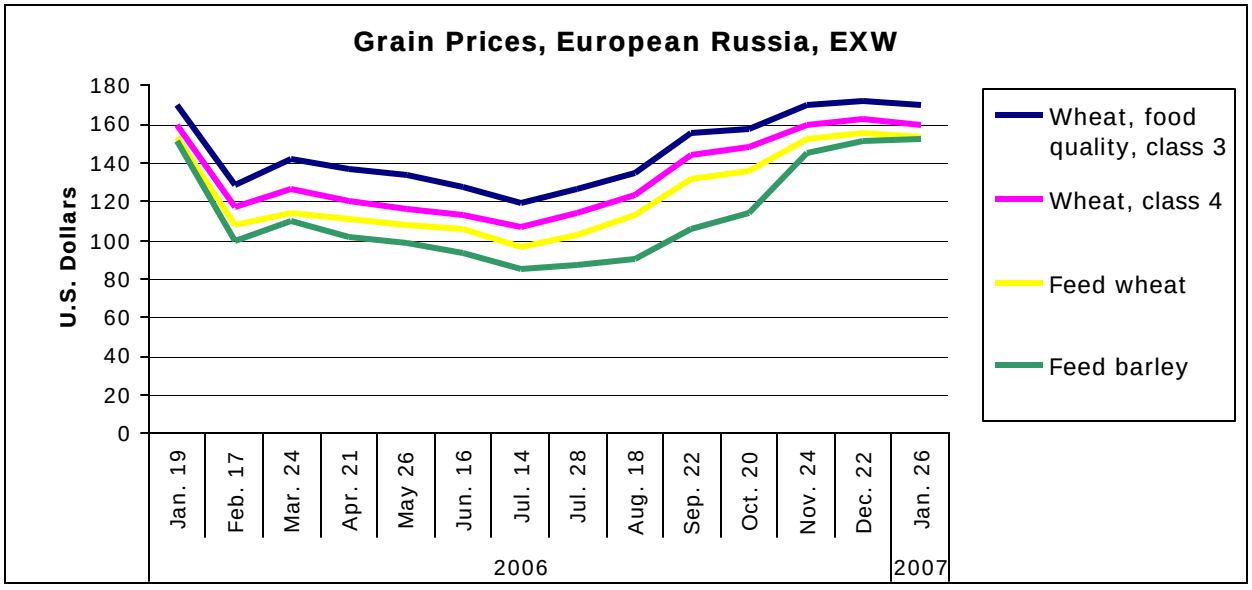
Feed grain prices (class 4 wheat, feed wheat, and feed barley) in Russia remain high. Prices for feed wheat and feed barley have increased significantly from September 2006, and the current spread across class 4 wheat, feed quality wheat, and feed quality barley is not great. Domestic demand for feed wheat and feed barley in European Russia (the main origin of grain exports from Russia) is stable and high.

Table 1. Average grain prices, European Russia, EXW, U.S. dollars

	September 22, 2006	October 20, 2006	November 24, 2006	December 22, 2006	January 26, 2007
Wheat, food quality, class 3	155.25	157.55	169.34	171.33	169.33
Wheat, class 4	144.19	147.69	160.05	162.22	159.74
Feed wheat	131.62	136.16	151.90	155.20	152.97
Feed barley	106.12	114.07	145.07	151.41	152.40

Source: WJ InterAgro

Chart 1. Grain Price Movements in 2006 and January 2007



Source: WJ InterAgro

Wheat

Post corrected area harvested in 2005 and 2006. Though official data are not available, harvested area is calculated as production divided by yields per harvested area. MY 2006 import and export (wheat and wheat flour in grain equivalent) data are based on official trade data. Wheat crop is officially reported at 44.9 mmt, and Post increased wheat export forecast to 8.7 mmt and wheat feed consumption to 14.5 mmt.

PSD Table for Wheat, 1,000 Hectares, 1,000 Metric Tons

Country	Russian Federation									
Commodity	Wheat						(1000 HA)(1000 MT)(MT/HA)			
	2004	Revised		2005	Estimate		2006	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Area Harvested	24200	24200	24200	25400	25400	24715	23700	23700	23041	(1000 HA)
Beginning Stocks	2645	2645	2645	3891	3891	3891	3809	3791	3809	(1000 MT)
Production	45400	45400	45400	47700	47700	47700	43500	41000	44900	(1000 MT)
MY Imports	1197	1197	1197	1282	1200	1160	1200	1400	1200	(1000 MT)
TY Imports	1197	1197	1197	1282	1200	1160	1200	1400	1200	(1000 MT)
TY Imp. from U.S.	0	0	0	4	0	4	0	0	0	(1000 MT)
Total Supply	49242	49242	49242	52873	52791	52751	48509	46191	49909	(1000 MT)
MY Exports	7951	7951	7951	10664	10600	10602	8500	7600	8700	(1000 MT)
TY Exports	7951	7951	7951	10664	10600	10602	8500	7600	8700	(1000 MT)
Feed Consumption	13600	13600	13600	14900	14900	14900	13700	12800	14500	(1000 MT)
FSI Consumption	23800	23800	23800	23500	23500	23440	23200	23200	23600	(1000 MT)
Total Consumption	37400	37400	37400	38400	38400	38340	36900	36000	38100	(1000 MT)
Ending Stocks	3891	3891	3891	3809	3791	3809	3109	2591	3109	(1000 MT)
Total Distribution	49242	49242	49242	52873	52791	52751	48509	46191	49909	(1000 MT)
Yield	1.876	1.876	1.876	1.878	1.878	1.930	1.835	1.730	1.949	(MT/HA)

Barley

Post corrected area harvested in 2005 and 2006. Though official data are not available, harvested area is calculated as production divided by yields per harvested area. Data on imports of barley in MY 2005 are based on official trade data. High domestic demand for feed barley causes an increase in domestic feed barley consumption and a decrease in forecast exports of barley.

PSD Table for Wheat, 1,000 Hectares, 1,000 Metric Tons

Country	**Russian Federation**									
Commodity	**Barley**						(1000 HA)(1000 MT)(MT/HA)			
	2004	Revised		2005	Estimate		2006	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Area Harvested	10000	10000	10000	9150	9150	8725	10100	10100	9575	(1000 HA)
Beginning Stocks	2227	2227	2227	2110	2110	2110	934	960	928	(1000 MT)
Production	17200	17200	17200	15800	15800	15800	18500	17500	18100	(1000 MT)
MY Imports	272	272	272	250	185	182	250	250	220	(1000 MT)
TY Imports	266	266	266	250	185	182	250	250	220	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	19699	19699	19699	18160	18095	18092	19684	18710	19248	(1000 MT)
MY Exports	1089	1089	1089	1726	1725	1724	2500	1900	1200	(1000 MT)
TY Exports	1488	1488	1488	1500	1725	1724	2500	1900	1200	(1000 MT)
Feed Consumption	11700	11700	11700	10900	10810	10840	11500	11400	12150	(1000 MT)
FSI Consumption	4800	4800	4800	4600	4600	4600	4600	4450	4800	(1000 MT)
Total Consumption	16500	16500	16500	15500	15410	15440	16100	15850	16950	(1000 MT)
Ending Stocks	2110	2110	2110	934	960	928	1084	960	1098	(1000 MT)
Total Distribution	19699	19699	19699	18160	18095	18092	19684	18710	19248	(1000 MT)
Yield	1.72	1.72	1.72	1.727	1.727	1.8109	1.8317	1.7327	1.8903	(MT/HA)

Rice

Due to increased import tariffs and the ban imposed in December 2006, the import estimate for 2006 is lowered to 345,000 metric tons. End-of-year stocks are decreased to 109,000 metric tons, and total consumption is lowered to 715,000 metric tons. The ban will dampen further rice imports in 2007, and that forecast is lowered to 320,000 metric tons. Domestic production will compensate somewhat for the quantity, but not the quality of rice in the domestic market, and domestic short-grain rice will not fully substitute for imports of medium- and long-grain. Thus, while total consumption of rice is forecast at 730,000 metric tons, 2 percent up from the CY 2006 estimate, the proportion of losses and waste in total consumption will increase. End of year 2007 stocks are forecast at 134,000 metric tons, reflecting increased carryover of unmarketed domestic short-grain rice.

PSD Table for Rice, 1,000 Hectares, 1,000 Metric Tons

Country	**Russian Federation**									
Commodity	**Rice, Milled**						(1000 HA)(1000 MT)(MT/HA)			
	2004	Revised		2005	Estimate		2006	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007	MM/YYYY
Area Harvested	130	130	130	135	135	135	163	140	163	(1000 HA)
Beginning Stocks	191	191	191	117	117	117	131	132	109	(1000 MT)
Milled Production	306	306	306	374	374	372	445	380	445	(1000 MT)
Rough Production	471	471	471	575	575	572	685	585	685	(1000 MT)
Milling Rate (.9999)	6500	6500	6500	6500	6500	6500	6500	6500	6500	(1000 MT)
MY Imports	350	380	350	375	380	345	375	380	320	(1000 MT)
TY Imports	350	380	350	375	380	345	375	380	320	(1000 MT)
TY Imp. from U.S.	5	5	5	0	0	0	0	0	0	(1000 MT)
Total Supply	847	877	847	866	871	834	951	892	874	(1000 MT)
MY Exports	10	10	10	10	15	10	10	15	10	(1000 MT)
TY Exports	10	10	10	10	15	10	10	15	10	(1000 MT)
Total Consumption	720	750	720	725	724	715	725	742	730	(1000 MT)
Ending Stocks	117	117	117	131	132	109	216	135	134	(1000 MT)
Total Distribution	847	877	847	866	871	834	951	892	874	(1000 MT)
Yield (Rough)	3.623	3.623	3.623	4.259	4.259	4.237	4.202	4.179	4.202	(MT/HA)